

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4561-01  
Bill No.: HB 1932  
Subject: Employment Security; Unemployment Compensation  
Type: Original  
Date: February 25, 2002

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	(\$409,649)	(\$843,877)	(\$869,193)
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>(\$409,649)</b>	<b>(\$843,877)</b>	<b>(\$869,193)</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
UNEMPLOYMENT COMPENSATION TRUST FUND	\$97,592,178	\$234,954,701	\$224,177,236
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$97,592,178*</b>	<b>\$234,954,701*</b>	<b>\$224,177,236*</b>

**\*Does not reflect potential loss of federal administrative grants due to possible noncompliance with federal law.**

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
<b>Local Government</b>	<b>(\$919,023)</b>	<b>(\$1,963,504)</b>	<b>(\$2,210,431)</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 11 pages.

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## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Department of Agriculture, Department of Health and Senior Services, Department of Social Services, Missouri Lottery Commission, Department of Conservation, State Treasurer's Office, Harris–Stowe State College, Lincoln University, Missouri Western State College, Missouri Southern State College, Northwest Missouri State University, Southeast Missouri State University, Southwest Missouri State University, Greene County, St. Louis County, St. Charles County, Jackson County, City of St. Louis, and the City of Springfield** did not respond to our fiscal impact request.

Officials from the **Office of the Governor, Office of the Lieutenant Governor, Missouri House of Representatives, Office of the Attorney General, Secretary of State's Office, State Auditor's Office, Missouri Tax Commission, Missouri Ethics Commission, Missouri Gaming Commission, Linn State Technical College, Central Missouri State University, University of Missouri, Department of Higher Education, Department of Economic Development – Division of Workforce Development, Department of Insurance, and the Department of Public Safety** assume the proposed legislation would have no fiscal impact on their agencies.

Officials from the **Truman State University** assume the proposal could cause additional paperwork but cannot provide an estimated cost.

Officials from the **Department of Elementary and Secondary Education** state a cursory review of the proposal reveals no significant impact to the foundation formula, schools, or their Department.

Officials from the **Missouri Senate** state the proposal would have no fiscal impact on their agency and assume any costs associated with the proposal would be absorbed in current appropriations.

Officials from the **City of Kansas City (CKC)** assume the proposal could increase the cost of the City's unemployment insurance either 10%, 20%, or 30% per calendar quarter or year depending on the health of the Missouri Unemployment Compensation Trust Fund. CKC assumes the City could see increases of as much as \$100,000, which would be an unfunded mandate by the State.

Officials from the **Office of the State Courts Administrator, Department of Corrections, Department of Natural Resources, Department of Transportation, and the Department of Revenue** defer to the Office of Administration's response for fiscal impact.

Officials from the **Department of Mental Health** assume no fiscal impact if the Office of Administration continues its current practice of reimbursing the Unemployment Compensation Trust Fund.

ASSUMPTION (continued)

Officials from the **Office of Administration – Division of Accounting (COA)** note their office has the central state appropriations to reimburse employment security. COA believes the revision of the formula will result in an 18% increase in costs reimbursed. COA notes a 39% increase, for all funds, in claims from the last four calendar quarters (3<sup>rd</sup> quarter 2001 to 2<sup>nd</sup> quarter 2002) over the previous four quarters (3<sup>rd</sup> quarter 2000 to 2<sup>nd</sup> quarter 2001). COA assumes the same increase for FY 2003 plus an 18% increase to reflect impact of the proposed legislation.

Officials from the **Department of Labor and Industrial Relations (DOL)** assume:

(1) The cost for computer programming, reprinting forms and pamphlets due to changes created by the proposal would be absorbed through the normal costs of operations;

(2) The Office of Administration will provide the fiscal impact on state agencies;

(3) A 2% inflation factor for FYs 2004 and 2005;

(4) The Maximum Weekly Benefit Amount (MWBA) is currently a set figure of \$250. The proposal provides for calculating the MWBA at 50% of the state's Average Weekly Wage (AWW) with a minimum MWBA of \$275. Fifty percent, of the estimated AWW for 2001 of \$593.46, would be \$296.73. Rounding this down to the nearest \$5 increment would make the 2003 estimated MWBA \$295.00. Based on data for the calendar years 2000 & 2001 and considering the proposal would be effective with claims beginning January 2003, the estimated increase in paid benefits for the last six months of the FY 2003 would be cost: a) local government \$772,154 for 2003; \$1,724,760 for 2004 and \$1,966,913 for 2005; and b) Unemployment Compensation Trust Fund (UCTF) \$38,078,561 for FY 2003; \$85,056,059 for FY 2004; and \$96,997,772 for FY 2005.

(5) Earnings of \$20 or less currently do not reduce the amount of the weekly benefit entitlement. Under the proposal, earnings equal to or under 20% of the MWBA would not reduce the amount of entitlement. With the proposed estimated MWBA for 2003 of \$295.00, 20% would be \$59. Weeks claimed with earnings less than the weekly benefit amount plus \$20 (current law) were compared with weeks claimed with earnings less than the weekly benefit amount plus \$59. Considering the proposal would be effective with the first full week claimed in January 2003 and considering the proposed estimated MWBA of \$295 for 2003, the estimated increase costs to local governments, which reimburse the UCTF for benefit payments, would be \$57,351 for 2003; \$ 116,997 for 2004 and \$ 119,336 for 2005.

This would leave a cost to the UCTF of \$2,828,276 for FY 2003; \$5,769,682 for FY 2004; and \$5,885,077 for FY 2005. These estimates do not include the amount of benefits saved from claimants, who would not have otherwise considered part time work and whose part time work would have resulted in increased hours or full time employment. The amount of savings is

ASSUMPTION (continued)

unknown.

(6) Clarification of statutory references in the proposal would cause no fiscal impact.

(7) Adopting the North American Industry Classification System, as established by the Federal government would result in zero fiscal impact.

(8) During calendar year 2001, the weekly benefit amount of approximately 23,689 weekly claims was reduced due to vacation pay. If vacation pay had not been deductible the result on local government would be \$89,518 (9 months) for 2003, \$121,747 for 2004; and \$124,182 for 2005. This would leave an estimated impact to the UCTF of \$4,414,651 for 2003; \$6,003,925 for 2004; and \$6,124,003 for 2005. Many individuals do not file for unemployment insurance benefits until after their vacation pay no longer applies. These estimates do not take into account those who would have been paid had they not waited. This amount is not known

(9) On December 21, 2000, the President signed the Consolidated Appropriations Act (CAA) into law which amended Federal law to change the way American Indian tribes are treated under the Federal Unemployment Tax Act (FUTA). Specifically, Indian tribes must be treated similarly to State and local governments. Tribes must now be offered the reimbursement option for financing unemployment insurance (UI). Prior to the CAA amendments, States were prohibited from offering the reimbursement option to Indian tribes. Instructions issued by the United States Department of Labor provide, "States with 'Indian tribes,' as defined by the CAA amendments, within their state boundaries must amend their laws to implement the requirement created by the CAA". Employees of an out-of-state company owned by a federally recognized Indian tribe began working in Missouri during 2001. Wages earned by these employees are subject to Missouri law, which does not currently allow the Division of Employment Security (DES) to meet the federal requirements. If Missouri law does not conform with Federal law the result could be a loss of certification for FUTA credits which could cost Missouri employers as much as \$992 million annually and the DES an estimated \$40 million annually in administration funds from the Federal government.

(10) When a new acquisition rate is lower, most employers choose to pay the contributions due at the existing higher rate rather than undertaking the task of breaking down the taxable payroll and submitting separate reports as allowed by existing law. When the new rate goes up, the employer must breakdown the taxable payroll and report it on two separate wage reports because there is no provision that allows for waiving the additional tax due. Some employers have been required to submit as many as six contributions reports for one quarter, because they experience mergers and acquisitions during the quarter. The DES believes the overall impact to the UCTF would be minimal.

(11) Under current law, the DES projects UI benefits will be paid in the amount of \$472,479,340

ASSUMPTION (continued)

for 2003, \$471,119,348 for 2004 and \$486,117,710 for 2005. Based on the current contributions rate schedule, Contribution Rate Adjustment (CRA) and Taxable Wage Base (TWB) of \$7,500 for 2003; \$8,000 for 2004; and \$8,500 for 2005, it is projected DES would receive approximately \$354,607,834 in contributions for 2003; \$389,770,524 for 2004; and \$418,704,897 for 2005 – leaving a negative UCTF balance of (\$47,879,299) for 2003; (\$129,228,124) for 2004; and (\$196,640,937) for 2005. The negative balance would continue to worsen each year because the current factors establishing the rate schedule, CRA trigger and TWB are not sufficient to maintain or replenish the fund.

The proposal removes the current tax rate schedule for determining the UI tax rates. It replaces it with the tax table found in 288.120.1, which is currently used for employers participating in the shared work program. Many employers pay less in contributions than their workers have received in benefits, which has resulted in an accumulated deficit of more than \$432 million. Using the proposed rate table for all employers will help ensure that those employers using the trust fund the most would pay their fair share of the costs. Increasing the maximum rate incrementally to a maximum of 9% would result in approximately \$16 million annually. The rate change also raises the minimum rate of zero to one-tenth of one percent which would increase contributions approximately \$2 million or more per year, depending on the CRA in effect.

Changing the current trigger factors for the CRA do not have an immediate affect since the CRA is currently projected to be the 30% maximum for 2003, 2004 and 2005 either way. Tying the CRA to a measure of trust fund solvency rather than a fixed dollar amount of the UCTF balance will help build sufficient reserves in the fund during good economic times in order to endure the during slower economic periods.

Under the proposal, the TWB would be 50% of the AAW for the calendar year 2001. The AAW for 2001 is estimated to be approximately \$30,860. Fifty percent would result in an estimated TWB of \$15,500 for 2003. Making the TWB a percentage of the AAW is a method of financing recommended by the State Auditor in the audit report of the UCTF and is a part of a long-term solution the trust fund financing.

Based on the proposed contributions rate changes and using the proposed TWB calculation of 50% of the AAW it is projected DES would receive approximately \$640,435,167 for 2003, \$721,554,891 for 2004 and \$751,888,985 for 2005 leaving a positive trust fund balance of \$163,610,374 for 2003, \$341,382,302 for 2004 and \$533,861,993 for 2005. The estimated increase to the UCTF for the 6 months of the FY 2003 would be \$142,913,666; for FY 2004 \$331,784,367 and for FY 2005 \$333,184,088.

<u>FISCAL IMPACT - State Government</u>	FY 2003 (6 Mo.)	FY 2004	FY 2005
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**GENERAL REVENUE FUND**

<u>Costs</u> – Increased Amount of Unemployment Compensation Payments (All State Agencies and Colleges and Universities)	(\$409,649)	(\$843,877)	(\$869,193)
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<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$409,649)</u></b>	<b><u>(\$843,877)</u></b>	<b><u>(\$869,193)</u></b>
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**UNEMPLOYMENT  
COMPENSATION TRUST FUND**

<u>Revenue</u> – Increase in Amount Paid into the Fund Resulting from Indexing the Taxable Wage Base to the Average Weekly Wage and Changes to the Tax Rate Schedule	\$142,913,666	\$331,784,367	\$333,184,088
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Costs – Increase in Paid Benefits  
Resulting from:

Indexing the maximum weekly benefit amount to the Average Weekly Wage.	(\$38,078,561)	(\$85,056,059)	(\$96,997,772)
Increasing the amount a worker can earn without reducing their benefit amount.	(\$2,828,276)	(\$5,769,682)	(\$5,885,077)
Vacation pay not being considered wages. (9 mos for FY 2003)	<u>(\$4,414,651)</u>	<u>(\$6,003,925)</u>	<u>(\$6,124,003)</u>
<b>Total Costs</b>	<b>(\$45,321,488)</b>	<b>(\$96,829,666)</b>	<b>(\$109,006,852)</b>

<b>ESTIMATED NET EFFECT ON THE UNEMPLOYMENT COMPENSATION TRUST FUND</b>	<b><u>\$97,592,178</u></b>	<b><u>\$234,954,701</u></b>	<b><u>\$224,177,236</u></b>
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<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
<b>VARIOUS LOCAL FUNDS</b>			
<u>Costs</u> – Increase in Paid Benefits			
Resulting from:			
Indexing the maximum weekly benefit amount to the Average Weekly Wage.	(\$772,154)	(\$1,724,760)	(\$1,966,913)
Increasing the amount a worker can earn without reducing their benefit amount.	(\$57,351)	(\$116,997)	(\$119,336)
Vacation pay not being considered wages. (9 mos for FY 2003)	<u>(\$89,518)</u>	<u>(\$121,747)</u>	<u>(\$124,182)</u>
Total Costs	(\$919,023)	(\$1,963,504)	(\$2,210,431)
<b>NET EFFECT ON VARIOUS LOCAL FUNDS</b>	<b><u>(\$919,023)</u></b>	<b><u>(\$1,963,504)</u></b>	<b><u>(\$2,210,431)</u></b>

#### FISCAL IMPACT - Small Business

Unemployment compensation (UC) is paid from the Unemployment Compensation Trust Fund (UCTF), which is funded by employer contributions and reimbursements. The proposed legislation contains several changes, which could affect all employers. The language:

1. Changes the amount an individual can earn before causing a reduction in their weekly benefit amount. This could increase the amount of benefit amount for an individual working part time or could decrease the amount of UC paid since it encourages workers to accept part time work, which could lead to full time employment;
2. Changes the calculation for determining the state taxable wage base (TWB) for employers' contributions. This could increase the amount of contributions paid by employers who pay employees more than the current TWB;
3. Changes the calculation for determining the state maximum weekly benefit amount (MWBA). This could increase the amount of weekly benefit amount for subject individuals;
4. Exempts vacation pay from causing a reduction of an individual's weekly benefit amount. This could increase the amount of weekly benefit amount for some individuals;

FISCAL IMPACT - Small Business (continued)

5. Changes the contributions rate schedule and increases the minimum rate allowed from zero to one-tenth of one percent. This could increase the amount of contributions paid by subject employers and ensures that those employers using the trust fund the most would pay their fair share of the costs;

6. Changes the date for calculating the rate for employers, who acquire another liable business after the first day of a quarter. This could save subject employers the time and paper work involved in filing multiple contribution wage reports to the Division of Employment Security (DES).

Failure to pass the proposed legislation pertaining to Indian Tribes could substantially impact all employers since Missouri law does not currently conform to Federal law.

The overall costs and savings to small business can not be determined.

DESCRIPTION

This proposal makes several changes to the employment security laws. In its main provisions, the proposal:

- (1) Revises the calculation for the state taxable wage base for year 2003 and thereafter;
- (2) Provides that "employer" includes Indian tribes for which service in employment is performed and requires Indian tribe employers to contribute to the Unemployment Compensation Trust Fund;
- (3) Changes the maximum weekly benefit amount for year 2003 and thereafter;
- (4) Revises the calculation of partial benefits claimed after year 2002;
- (5) Changes the basis for determining industrial classification divisions for purposes of calculating employer contributions for unemployment insurance from the Standard Industrial Classification manual to the industrial classification system established by the federal government;
- (6) Recalculates the contribution rate of a successor employer when there is a difference in rates between the predecessor and successor employers; and
- (7) Revises the method for determining the annual contribution rate adjustment.

The proposal has an emergency clause.



DESCRIPTION (continued)

Parts of the proposed legislation are federally mandated. According to the Department of Labor and Industrial Relations:

(1) Section 166 of the Community Renewal Tax Relief Act of 2000 as enacted by the Consolidated Appropriations Act, 2001(CAA), PL 106-554 requires States to make certain provisions for businesses solely owned by federally recognized Indian Tribes; and

(2) The Office of Management and Budget, Executive Office of the President, published the final notice of decision for the adoption of North American Industry Classification System (NAICS) in 62 FR 17287 (April 9, 1997). NAICS replaces the 1987 Standard Industrial Classification (SIC), therefore, making the state's use of the SIC, as currently provided by statute, no longer possible.

This legislation would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

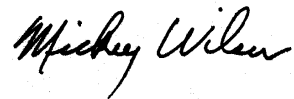
Office of the Governor  
Office of the Lieutenant Governor  
Missouri Senate  
Missouri House of Representatives  
Office of the Attorney General  
Secretary of State's Office  
State Auditor's Office  
Missouri Ethics Commission  
Office of the State Courts Administrator  
Missouri Tax Commission  
Missouri Gaming Commission  
City of Kansas City  
Linn State Technical College  
Central Missouri State University  
University of Missouri  
Truman State University  
Office of Administration – Division of Accounting  
Department of Labor and Industrial Relations  
Department of Corrections  
Department of Natural Resources  
Department of Transportation  
Department of Revenue

SOURCES OF INFORMATION (continued)

Department of Elementary and Secondary Education  
Department of Higher Education  
Department of Economic Development  
Division of Workforce Development  
Department of Insurance  
Department of Public Safety

NOT RESPONDING

Department of Agriculture  
Department of Health and Senior Services  
Department of Social Services  
Missouri Lottery Commission  
Department of Conservation  
State Treasurer's Office  
Harris-Stowe State College  
Lincoln University  
Missouri Western State College  
Missouri Southern State College  
Northwest Missouri State University  
Southeast Missouri State University  
Southwest Missouri State University  
Greene County  
St. Louis County  
St. Charles County  
Jackson County  
City of St. Louis  
City of Springfield



Mickey Wilson, CPA

Acting Director

February 25, 2002